pason

PASON SYSTEMS INC. is the world's largest provider of rental oilfield instrumentation systems that are designed and manufactured for use on land-based drilling rigs. Pason offers a tightly integrated package of complex services including data acquisition, wellsite reporting software, remote communications and Internet information management tools.

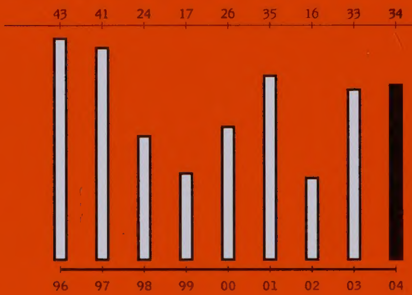
ANNUAL REPORT 2004

Performance Data

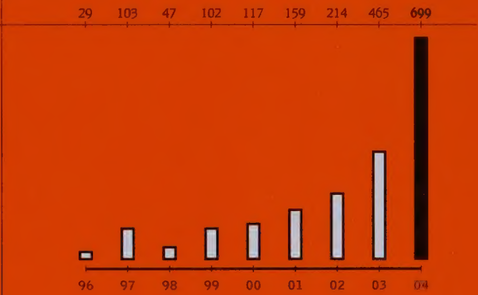
(000s, EXCEPT PER SHARE DATA) (UNAUDITED)	THREE MONTHS ENDED DECEMBER 31, 2004 $	2003 $	CHANGE %	YEARS ENDED DECEMBER 31, 2004 $	2003 $	CHANGE %
Revenue	36,611	27,772	32	122,212	91,801	33
Net earnings	11,757	8,128	45	33,842	24,596	38
Per share – basic	0.62	0.44	41	1.81	1.35	34
Per share – diluted	0.61	0.43	42	1.75	1.31	34
Cash flow from operations	16,868	13,581	24	54,640	40,463	35
Per share – basic	0.90	0.74	22	2.93	2.23	31
Per share – diluted	0.86	0.71	21	2.82	2.15	32
Dividends						
Per share	0.15	0.10	50	0.25	0.17	47
Capital expenditures	8,778	17,883	(51)	41,655	34,041	22
Working capital	21,540	9,235	133	21,540	9,235	133
Total assets	139,012	112,289	24	139,012	112,289	24
Shareholders' equity	114,747	83,902	37	114,747	83,902	37
Return on shareholders' equity	–	–	–	34	33	3
Market capitalization	699,000	465,000	50	699,000	465,000	50
Weighted average shares outstanding (#)	18,836	18,402	4	18,664	18,175	3

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. Return on shareholders' equity is calculated as net earnings over the simple average of the beginning and ending shareholders' equity. Both definitions are not recognized measures under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

Return on Equity \ %



Market Capitalization \ $ millions



We are pleased to report that during our ninth year as a public company, Pason significantly eclipsed all previous performance records. Our continuing growth can best be highlighted in our key financial metric – how much revenue we generate per industry drilling day.

In 1996, our first year as a public company, Pason billed $46 of revenue for each industry drilling day in Canada and $nil in the United States. During 2004 however, we achieved $552 per day in Canada, an annual compounding rate of 32%, plus another $100 per day from our U.S. operations. This growth has been duly recognized in the market place as our year-end market capitalization has grown from $30 million in 1996 to $699 million in 2004, representing an average annual appreciation of 42%.

Value Creation

Clearly we have had success in the past, but what exactly is Pason's strategy for creating value and how will this strategy translate into future growth for our Company? The oilfield service industry is characterized by customers who make numerous, repetitive buying decisions, thereby ensuring an efficient market situation where prices quickly settle in balance to supply and demand. Recent market fundamentals have seen increasing demand for virtually all types of oilfield services, while the service sector has demonstrated its decades old skill for rapidly expanding its supply to meet customer demand. As a result, oilfield service players with a commodity product cannot simply count on increased demand to lift their prices unless there is an exponential demand increase that temporarily exceeds the ability of the industry to build matching supply.

For this reason, Pason's strategy has always been to avoid building commodity products. This may seem naïve as most companies would claim to have an identical approach, but do their actions really match their words? In order to build revenue faster, there is tremendous pressure to reduce product features in order to get the product to market sooner or to simply buy an existing business that already produces that product. Either approach will produce quick revenue, but only by launching commodity products that are subjected to intense price pressure the moment demand growth slows to linear rates. Accordingly, I believe the number one reason for Pason's steady growth is our commitment to making our products and services unique, even at the possible short-term detriment of revenue and profitability. The following are a few of our Company's historical milestones that demonstrate our uniqueness and vision, and which I think reveal much about our strategy while providing some guidance for our future:

- 1990 \ **Launched the Pason Pit Volume Totalizer, the first electronics package successfully designed to meet the harsh requirements of the drilling environment.**
- 1994 \ **Introduced the Pason Electronic Drilling Recorder, the first computerized data acquisition system to operate on a drilling rig without fulltime technicians on-site.**

- 1997 \ **First use of a corporate intranet to manage field staff from their homes rather than service centres and thus allow for a more dispersed and responsive field service structure.**
- 1999 \ **First oilfield service company to provide customer drilling data using the Internet via the Pason Internet DataHub.**
- 2001 \ **Launched the Pason Total Gas System, the first system to not require on-site geological supervision and maintenance.**
- 2003 \ **Launched the first auto aiming satellite system suitable for rig site locations to allow widespread use of Internet services at the wellsite.**
- 2004 \ **Introduced the first electronic auto driller to provide precise drilling control without a costly rig braking system upgrade.**

Most of these "firsts" have yet to be duplicated by our competitors, which is why Pason generates more profits from oilfield instrumentation rentals than all other industry players combined. Our objective is to provide customers reliable, easy to use equipment that can be deployed and repaired with a minimum of effort on their part. While to date we have successfully met this challenge, we will not deviate from this goal even if there is money to be made on a quick, short-term product. Our thoughtful and measured strategy for providing unique proprietary products and solutions and industry best customer care remains our number one priority.

Governance

In addition to a sound value creation strategy, investors today are looking for good corporate governance. The financial scandals in a number of major companies in recent years have contributed to legislation such as the ill conceived and expensive Sarbanes-Oxley Act in an attempt to make management more accountable. There are clearly more effective and less expensive options. At Pason, all management salaries are below comparable oilfield service companies, and while options are provided, they are not issued in escalating quantities regardless of corporate performance. The largest manager grant occurs on the day the manager first begins work at Pason and subsequent grants are smaller and do not occur annually. As a result, all managers benefit primarily from the long-term growth of Pason and its stock price, which aligns them directly with you the shareholder.

We have also tried to enhance corporate governance through an engaged and skilled Board of Directors. Presidents from two of Canada's largest oilfield service companies sit on our Board providing invaluable service industry experience. For financial stewardship, an unusually high two-thirds of the Board members have Chartered Accountant designations. We take corporate governance seriously, aiming to achieve the best management and business practices throughout all our endeavours.

Challenges

I am often asked by institutional investors what I see as the greatest challenge for Pason in continuing its high rate of growth. The biggest challenge is certainly not the common problem of continuing to find or develop new products. Our growing technical skills and resources combined with ever more customer dialog continue to identify promising new product ideas. The greatest challenge I commonly mention is the ability to remain efficient and responsive to customers as our employee count continues to increase. Most Pason managers have extensive field experience giving them excellent knowledge of our products and the operation of Pason culture. However, larger companies inevitably need more processes, not to be confused with bureaucracy. We see process as something that allows many more people to still operate efficiently and focus on the customer. To improve our processes, two key managers with proven success in much larger entities were added over the past year in manufacturing and for general management of our U.S. business unit.

Outlook

Looking forward to the balance of 2005 and beyond, I am pleased to see positive signs in all areas that impact our growth. Our customers are benefiting from high oil and natural gas prices allowing them to continue to expand their drilling budgets and the demand for our products. We currently have a deep pool of talent in our management ranks with which to capitalize on the increased business opportunities. Finally, the resources of Pason are such that we can easily finance both our rental asset expansion and our aggressive R&D program without the risk of debt.

I have attempted to explain the key fundamentals of what Pason is all about, but to learn more, I encourage all interested shareholders to join us at our annual meeting and reception to be held in Pason's Calgary offices on May 16, 2005.

On behalf of the Board of Directors,

JIM HILL
President & Chief Executive Officer
March 1, 2005

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of March 1, 2005 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2004 and 2003 and should be read in conjunction with the consolidated financial statements and accompanying notes.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

	THREE MONTHS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
	2004	2003	CHANGE	2004	2003	CHANGE
(000s, EXCEPT PER SHARE DATA) (UNAUDITED)	$	$	%	$	$	%
Revenue						
Drilling recorder rentals	**16,561**	13,348	24	**56,768**	45,149	26
Pit volume totalizer rentals	**9,182**	7,776	18	**31,940**	26,435	21
Communications rentals	**3,003**	1,605	87	**8,802**	3,412	158
Geological services	**2,182**	1,458	50	**7,407**	5,847	27
Total gas rentals	**2,019**	1,517	33	**6,638**	4,529	47
Auto driller rentals	**1,397**	184	659	**3,187**	232	1,274
Choke control rentals	**1,064**	884	20	**3,261**	2,750	19
Mobilization and other income	**1,203**	1,000	20	**4,209**	3,447	22
Total revenue	**36,611**	27,772	32	**122,212**	91,801	33
Expenses						
Rental services	**8,382**	6,273	34	**33,468**	23,367	43
Geological services	**1,395**	912	53	**4,954**	4,283	16
Manufacturing and distribution	**944**	732	29	**3,579**	2,835	26
Research and development	**1,345**	914	47	**4,995**	3,663	36
Administration	**828**	656	26	**3,062**	2,647	16
Stock-based compensation	**424**	170	149	**1,290**	170	659
Interest	**67**	141	(52)	**383**	894	(57)
Depreciation and amortization	**4,219**	5,022	(16)	**18,992**	15,017	26
Total expenses	**17,604**	14,820	19	**70,723**	52,876	34
Net earnings (after taxes)	**11,757**	8,128	45	**33,842**	24,596	38
Per share – basic	**0.62**	0.44	41	**1.81**	1.35	34
Cash flow from operations	**16,868**	13,581	24	**54,640**	40,463	35
Per share – basic	**0.90**	0.74	22	**2.93**	2.23	31
Margins						
Rental services	**76%**	76%	--	**71%**	73%	(3)
Geological services	**36%**	37%	(3)	**33%**	27%	22

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

Selected Annual Information

YEARS ENDED DECEMBER 31,	2004	2003	2002
(000s, EXCEPT PER SHARE DATA) (UNAUDITED)	$	$	$
Revenue	**122,212**	91,801	55,311
Net earnings	**33,842**	24,596	9,606
Per share – basic	**1.81**	1.35	0.54
Per share – diluted	**1.75**	1.31	0.53
Cash flow from operations	**54,640**	40,463	18,534
Per share – basic	**2.93**	2.23	1.04
Per share – diluted	**2.82**	2.15	1.01
Capital expenditures	**41,655**	34,041	14,731
Working capital	**21,540**	9,235	4,295
Total assets	**139,012**	112,289	90,191
Shareholders' equity	**114,747**	83,902	65,878
Average shares outstanding (#)			
Basic	**18,664**	18,175	17,748
Diluted	**19,356**	18,821	18,275
Shares outstanding end of year (#)	**18,882**	18,446	17,903

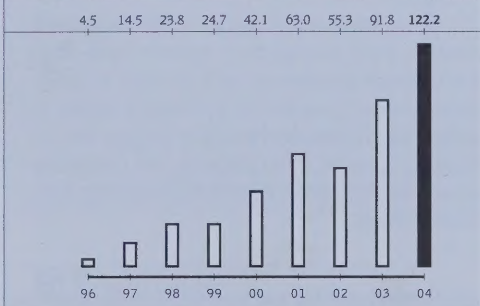
Pason's revenue is derived from the rental of instrumentation and data services to oil and gas companies and drilling contractors throughout Canada, the United States and internationally.

For the fiscal year ended December 31, 2004, the Company posted record operating results despite a weak third quarter in Canada that was brought about by weather restricted summer drilling activity. Pason continued to aggressively pursue its business strategy of maintaining steady growth through increased market share and by providing more products per rig site.

Revenue

Revenue, generated from instrumentation rentals and geological services, increased 32% to $36.6 million during the 2004 fourth quarter compared to $27.8 million in the 2003 three-month period. For the year ended December 31, 2004, instrumentation rentals and geological services revenue rose to $122.2 million from $91.8 million recorded in the same period a year ago. This 33% year-over-year jump was due to increases in the number of Canadian and United States industry drilling days (5% and 19%, respectively) and improved revenue per industry day brought about by the addition of new products, higher rental rates and a growing U.S. market share. The gain recorded in the United States was offset somewhat by the declining U.S. dollar when converted to Canadian currency.

Revenue \ $ millions



Revenue by Product \ % of total revenue

YEARS ENDED DECEMBER 31,	2004	2003
Drilling recorder rentals	**47**	49
Pit volume totalizer rentals	**26**	29
Communications rentals	**7**	4
Geological services	**6**	6
Total gas rentals	**5**	5
Mobilization income	**3**	4
Auto driller rentals	**3**	–
Choke control rentals	**3**	3

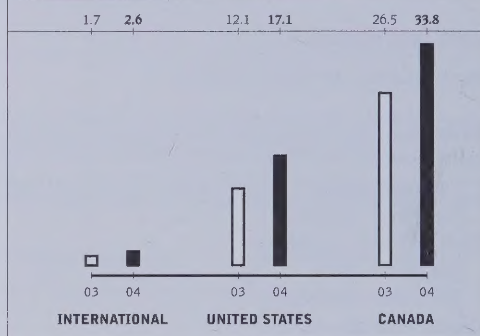
INSTRUMENTATION RENTALS

Pason delivers an integrated package of rental products that offers wellsite data acquisition and drilling management benefits at both the rig site and in the office. During the fourth quarter of 2004, revenue generated by instrumentation rentals increased 31% to $34.4 million compared to $26.3 million a year ago. For the year ended December 31, 2004, revenue generated by instrumentation rentals totaled $114.8 million versus $86.0 million in 2003. Canadian rentals revenue rose 29% to $73.1 million from $56.7 million, rentals revenue generated from U.S. operations increased 44% to $39.0 million from $27.1 million, while revenue from international activities increased 43% to $3.3 million from $2.3 million in 2003. Year-over-year differences in currency exchange rates negatively impacted the Company's U.S. rentals revenue by $2.9 million. For the 2004 fiscal year, the gross margin (rentals revenue less rental expenses) as a percentage of revenue was 71% compared to 73% in 2003 and 76% for each of the 2004 and 2003 fourth quarters. This small decline in margin was due to a 4% decline in U.S. operations where the turnover of field service staff continues at unacceptably high levels.

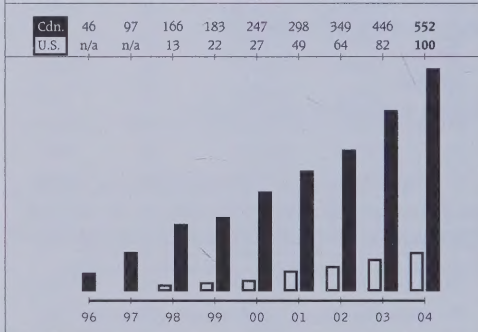
The daily rental value of the Company's current data acquisition, control and data management products as well as those in development could generate an economic package in excess of $1,000 per industry drilling day in Canada, creating the potential for continued growth in this market despite its significant EDR market share.

In Canada, the Company's rentals revenue per industry drilling day was $593 in the fourth quarter and $552 per day for the year, up 18% and 24% from the 2003 fourth quarter and year, respectively. While these numbers reflect period averages, Pason has several Canadian rigs generating over $1,000 per day of rentals revenue. In the United States, rentals revenue per industry drilling day improved 16% to $102 in the fourth quarter and 22% to $100 per day for the year.

Segment Operating Profit \ $ millions



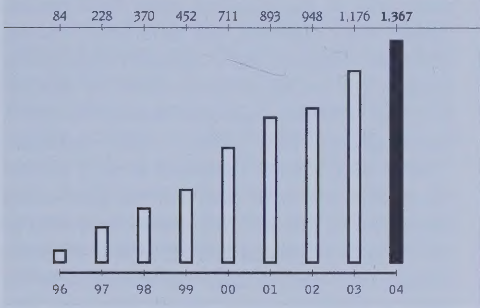
Rentals Revenue Per Industry Drilling Day \ $



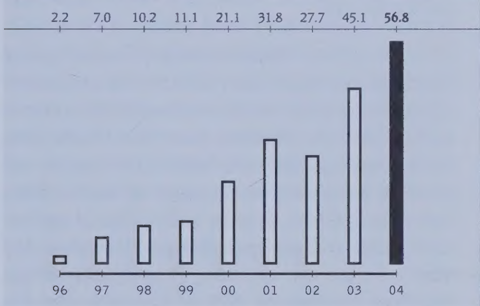
ELECTRONIC DRILLING RECORDERS

Pason's Electronic Drilling Recorder (EDR) is a complete system of instrumentation and monitoring equipment, which acts as a base for all data capture, data display and communications at the drilling wellsite, that is configured as required and serves as the core of the Company's rig site presence. In 2004, Pason built 191 new systems to meet the continuing customer demand. At year-end, Pason's electronic data acquisition instrumentation had been installed on over 90% of all Canadian rigs reporting to the Canadian Association of Oilwell Drillers and was on 40% of all active U.S. land rigs.

EDR Systems \ systems at year-end



EDR Revenue \ $ millions

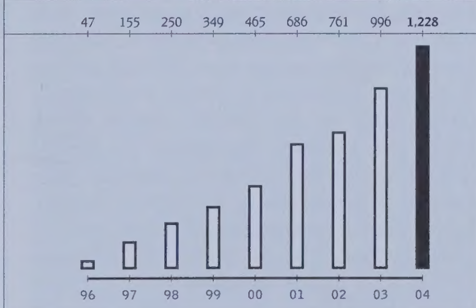


Revenue generated from the Company's EDR was up 24% to $16.6 million for the fourth quarter compared to $13.3 million for the same period in 2003. For the year ended December 31, 2004, EDR revenue totaled $56.8 million versus $45.1 million recorded a year ago. The 26% year-over-year revenue growth was primarily due to 9% and 34% increases in Pason's Canadian and U.S. EDR annual rental days, respectively, or from 122,500 to 133,200 days in Canada and from 100,600 to 135,000 days in the United States. Pason rental days for all products are determined by the accumulated billing days from all customer invoices. During 2003, the Company enhanced its software to allow its EDRs to take advantage of the broadband Internet access that Pason has made economically viable and available at most wellsites. During 2004, Pason significantly increased its EDR presence in the United States by shipping 166 units or over 85% of its new builds to this expanding market.

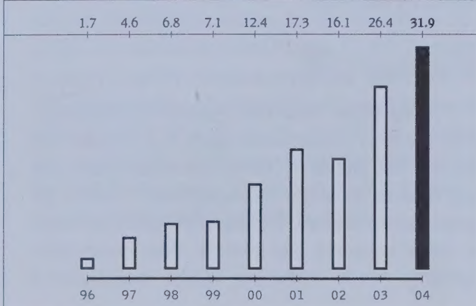
PIT VOLUME TOTALIZERS

The Pit Volume Totalizer (PVT) is Pason's proprietary solution for the detection and early warning of "kicks" that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. At year-end, the Company's PVT had been installed on over 90% of Canadian and 70% of U.S. rigs operating with a Pason EDR system. Fourth quarter PVT revenue increased 18% to $9.2 million versus $7.8 million in 2003. An 11% and 47% increase in Canadian and U.S. PVT annual rental days, respectively, contributed to the 21% increase in PVT rentals revenue to $31.9 million from $26.4 million a year ago. The Company's Canadian PVT annual rental days totaled 123,900 compared to 111,400 days in 2003, while U.S. rental days were 88,800 versus 60,500 days a year ago. Canadian drilling regulations allow operators to reduce surface casing depth when a PVT is employed, thereby justifying the use of this instrument on practically every well.

PVT Systems \ systems at year-end



PVT Revenue \ $ millions



COMMUNICATIONS

Peloton WellView®, which was introduced in late 2002, is a drilling data collection and reporting solution that is an integrated addition to Pason's EDR. Building on the wellsite engineering package developed by Peloton Computer Enterprises, a leading provider of this type of product, Peloton WellView® provides a generic engineering database capture module that follows the Pason EDR and the rigs on which it works.

Pason displays all data in standard forms on its Internet DataHub, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data amongst oilfield service companies, drilling contractors and operators).

In order to facilitate communications that are necessary for Peloton WellView® to function as well as to meet customer needs for more frequent drilling updates, Pason's high bandwidth satellite solution was rolled out in 2003. High-speed Internet satellite systems are equipped with proprietary hardware and software to facilitate automatic aiming as they move from one wellsite to the next. In addition to several small modifications made to the satellite systems during 2004, the Company introduced its iDirect upgrade service that allows for individual management of bandwidths at the wellsite location. Fourth quarter communications rentals revenue, which includes Peloton WellView®, increased 87% to $3.0 million compared to $1.6 million for the same period in 2003. For the year ended December 31, 2004, communications rentals revenue was up 158% to $8.8 million from $3.4 million a year ago.

TOTAL GAS SYSTEMS

The Pason Total Gas System (TGAS) measures the total hydrocarbon gases (C1 through C5) exiting the wellbore, which then calculates the lag time to show the formation depth where the gases were produced. The complex system provides a more accurate gas sample than competitor systems while reducing daily maintenance requirements. Although this product has been successful, it has required more field service support than expected, and as a result, during 2004 the Company did a complete engineering revision, the impact of which should be realized in 2005. Revenue generated during the 2004 fourth quarter from Pason's TGAS increased 33% to $2.0 million compared to $1.5 million recorded in the prior year. For the year ended December 31, 2004, TGAS revenue rose 47% to $6.6 million compared to $4.5 million in 2003. At year-end, Pason's TGAS had been installed on 25% of Canadian and 12% of U.S. land rigs operating with a Pason EDR system.

AUTO DRILLERS

In 2003, Pason released, on a limited basis, its electronic auto driller that is used to maintain constant weight on the drill bit while a well is drilling. Revenue from the Pason auto driller was up 659% in the fourth quarter of 2004 to $1.4 million from $0.2 million in 2003 and rose 1,274% for the year to $3.2 million from $0.2 million recorded at December 31, 2003. By the end of 2004, Pason's auto driller had been installed on 35% of Canadian and 6% of U.S. land rigs operating with a Pason EDR system. The Company had a total of 431 units versus 81 units at the end of 2003.

CHOKE CONTROL SYSTEMS

Pason's Electronic Choke Control System is used to control and remove detected gas "kicks" from the wellbore. During the fourth quarter of 2004, revenue from this product was up 20% to $1.1 million from $0.9 million a year ago and up 19% at year-end to $3.3 million from $2.8 million in 2003. As at December 31, 2004, the Pason Electronic Choke Control System had been installed on approximately 40% of all Canadian rigs in operation. The Company's business model for this product sees Pason providing only the electronic actuation and display, while the drilling contractor is responsible for the choke valve portion of the system. Although this model provides for greater industry safety, it has yet to gain acceptance in the United States, and therefore, to date the vast majority of revenue for this product has been derived from Canada.

GEOLOGICAL SERVICES

Due to the strong link between the geological service provider and the specialized equipment that is employed, in the United States market Pason provides geologists to monitor gas in the drilling returns, to pick formation tops and to analyze drilling cuttings. Through Pason's unique suite of integrated instrumentation products, the Company can assist customers in an environment of scarce geological talent as well as provide significant cost savings with supervision of multiple wells by a single geologist. Fourth quarter revenue from geological services rose 50% to $2.2 million from $1.5 million in 2003. Year-over-year revenue generated from geological services increased 27% to $7.4 million from $5.8 million recorded a year ago. The gross margin for these services was 33%, up from 27% in 2003, due to improved pricing and better cost control. Although Pason's geological services are primarily concentrated in the U.S. Rocky Mountain region where more complicated drilling structures increase the need for these specialized services, during 2004 the Company expanded its geological services into the Texas market.

Expenses

For the fourth quarter of 2004, consolidated total expenses increased 19% to $17.6 million from $14.8 million for the same period in 2003. For the year ended December 31, 2004, total expenses rose 34% to $70.7 million from $52.9 million the prior year. Expenses incurred by the Company have reflected the cost associated with building and maintaining a field service infrastructure to accommodate the levels of activity experienced over the past two years.

Individual Expense Items \ % of total expenses

YEARS ENDED DECEMBER 31,	2004	2003
Rental services	**47**	44
Depreciation and amortization	**27**	28
Geological services	**7**	8
Research and development	**7**	7
Manufacturing and distribution	**5**	5
Administration	**4**	5
Stock-based compensation	**2**	1
Interest	**1**	2

Rental services expenses for the fourth quarter, which represented 48% of the period's total expenses, increased 34% to $8.4 million from $6.3 million a year ago. During 2004, rental services expenses, which represented 47% of the year's total expenses, increased 43% to $33.5 million compared to $23.4 million in 2003. These expenses consisted primarily of wages and related benefit costs representing approximately 38% of the total rental services expenses in both Canada and the United States, and the additional direct costs of field servicemen, including but not limited to vehicle costs, communication, equipment repairs and freight. Of the $10.1 million year-over-year increase in total rental services expenses, $4.4 million was incurred in Canada ($1.1 million for labour and related costs, $1.5 million for communication expenses, $0.6 million each for vehicle related costs and repairs, $0.4 million for printers and monitors, and the remaining $0.2 million was spread evenly across other expenses) and $5.7 million incurred in the United States ($1.7 million for labour and related costs, $1.1 million for vehicle costs, $0.7 million for printers and monitors, $0.6 million for equipment repairs, $0.4 million for service technicians' living expenses, $0.2 million each for communication costs and freight and courier, and $0.8 million for miscellaneous other items). As industry activities are expected to remain high during the first half of 2005 and in order to maintain strong levels of service, the Company will continue to recruit and train additional field technicians as required. Pason's field service technicians are employed year round, and as a result, the Company's related expenses have a heavily weighted fixed component that is critical to its high service level. At December 31, 2004, Pason employed 114 field service technicians versus 94 at December 31, 2003 – a significant contributor to the increase in overall rental services expenses, especially in the United States. During 2004, Pason introduced simplification initiatives to reduce the volume and complexity of the workload experienced by its field technicians. The impact of this program will not likely be felt until mid-2005.

Geological services expenses increased 53% to $1.4 million from $0.9 million for the fourth quarter of 2004 and 16% to $5.0 million from $4.3 million for the year ended December 31, 2004. Labour and related costs, which represented over 92% of these expenses compared to 94% in 2003, increased slightly during the year, however the increase was more than offset by improved recovery of mudlogging expenses and strict cost control measures. Geological services expenses are typically more variable weighted than the rental services expenses.

Costs related to the manufacturing and distribution of Pason products rose 29% to $0.9 million in the 2004 fourth quarter from $0.7 million in 2003. For the year, these expenses increased 26% to $3.6 million from $2.8 million a year ago. Approximately 71% of the year-over-year increase was due to higher personnel costs of $0.5 million required to grow the Company's work force. The remainder of the $0.3 million increase was over various smaller items.

Research and development expenses, largely labour and occupancy related, increased 47% to $1.3 million in the quarter versus $0.9 million in 2003. For the year ended December 31, 2004, R&D expenses were up 36% to $5.0 million from $3.7 million a year ago, while annual capitalized deferred development costs increased $0.2 million to $1.0 million from $0.8 million in 2003, before investment tax credits received. Labour and related costs accounted for over 85% of the increase in expensed and capitalized deferred development costs in 2004. Almost four times the R&D expenditures are related to current period expenses as opposed to capitalized projects. At December 31, 2004, there were 52 employees devoted to research and development, up from 42 at December 31, 2003.

Administrative expenses for the fourth quarter totaled $0.8 million, a 26% increase over the $0.7 million recorded in the same 2003 period. For the year ended December 31, 2004, these expenses increased 16% to $3.1 million from $2.6 million a year ago with no notable expense contributing to this nominal $0.5 million year-over-year increase. Administrative costs represented 3% of total revenue in each of 2004 and 2003.

At year-end 2003, the Company adopted prospectively the new Canadian Institute of Chartered Accountants accounting recommendation for stock options, and as a result, all options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method, which for the year ended December 31, 2004 resulted in an expense of $1.3 million, a 659% increase from the $0.2 million recorded in 2003. The corresponding accounting entry in 2004 creates the contributed surplus as shown under shareholders' equity on the Company's balance sheet. As options are exercised, that were previously expensed, share capital and contributed surplus are adjusted accordingly.

Interest expense dropped 52% or $0.1 million in the 2004 fourth quarter and 57% or $0.5 million for the year. In a period of strong drilling activity and the resulting improvement in operating cash flow, Pason's increased capital expenditures were financed from cash flow, which resulted in the use of its credit facilities solely due to the timing of the cash flow. All lease obligations were fully paid off in 2004. During 2005, the use of credit lines is expected to be similar to 2004 given the continued strong levels of drilling activity and demand for products.

Depreciation and amortization expenses decreased 16% to $4.2 million in the 2004 fourth quarter from $5.0 million recorded in the 2003 period. For the year ended December 31, 2004, depreciation and amortization expenses rose 26% to $19.0 million from $15.0 million in 2003, representing 27% of the year's total expenses versus 28% a year ago. A portion of the Company's tangible assets are depreciated using a unit-of-use method of depreciation as it best matches revenue and expenses. Consequently, these expenses rose during 2004 reflecting the increases in rental days. In addition, changes made in accounting estimates over the last several years resulted in cables, which were previously depreciated as part of the EDRs, PVTs and TGAS, being reclassified to their own category and subsequently depreciated on a straight-line

basis over 36 months instead of their respective rental days under the unit-of-unit method. Satellite systems are also depreciated on a straight-line basis over 36 months. The cumulative impact of these changes has resulted in increased depreciation costs for the year and a higher fixed portion that is not dependent on use. Depreciation was lower for the fourth quarter in Canada because certain assets are now fully depreciated.

Income tax expense increased 50% to $7.3 million for the three-month period compared to $4.8 million a year ago and rose 23% to $17.6 million for the year ended December 31, 2004 from $14.3 million in 2003. An increase in earnings before tax of $12.6 million, up 32% from 2003, attributed to an increase in total taxes payable. The Company's combined current and future tax rate for 2004 was 34.2% versus 36.8% a year ago.

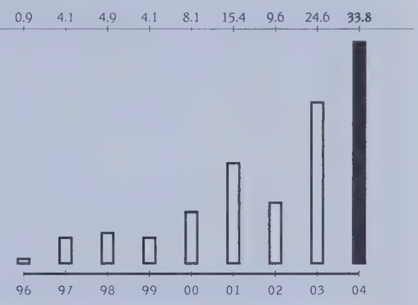
Margins

In 2004, the margin generated by the Company's rental products remained constant at 76% for the fourth quarters of 2004 and 2003 and decreased slightly from 73% to 71% for the year ended December 31, 2004. The Company, unlike many other service providers, improves its margins primarily from an increased number of rental products per site and increased market share or volume, however a mid-2003 price increase helped to maintain margin levels in 2004. The geological services margin dropped slightly to 36% in the 2004 three-month period from 37% a year ago and rose to 33% for the year from 27% in 2003. This level should be maintained and may improve in 2005 with increased volume.

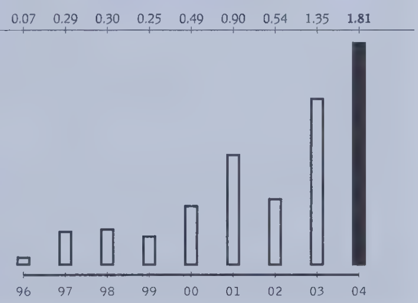
Net Earnings

Year-over-year fourth quarter net earnings increased 45% to $11.8 million and to $0.62 per share basic from $8.1 million or $0.44 per share. Net earnings for the year increased to $33.8 million or $1.81 per share basic from $24.6 million or $1.35 per share in 2003. This 38% earnings growth was due primarily to an increase in the Company's revenue as a result of strong drilling activity.

Net Earnings \ $ millions



Net Earnings Per Share \ $ basic



Liquidity and Capital Resources

CASH FLOW FROM OPERATIONS[1]

Operating cash flow rose 24% to $16.9 million or $0.90 per share basic in the fourth quarter of 2004 from $13.6 million or $0.74 per share in 2003. For the year ended December 31, 2004, cash flow from operations increased 35% to $54.6 million or $2.93 per share basic from $40.5 million or $2.23 per share a year ago. The 35% or $14.2 million cash flow gain was a result of a $9.2 million increase in earnings adjusted for $4.0 million in non-cash depreciation, ($0.1) million in future income tax and $1.1 million in stock-based compensation. During 2004, cash flow was used primarily to finance the Company's expanded capital expenditures program, improve its year-end working capital position and pay dividends.

During 2004, Pason continued to declare and pay semi-annual dividends on June 30 at $0.10 per share or $1.9 million and on December 31 at $0.15 per share (a 50% increase) or $2.8 million for total 2004 dividends of $0.25 per share or $4.7 million compared to a total of $0.17 per share or $3.1 million paid out in 2003.

The Company's internal sources of liquidity are cash and cash flow from operations. External sources include the unutilized portion of revolving credit facilities and equipment financings by way of capital leases.

At December 31, 2004, the Company's working capital position was $21.5 million versus $9.2 million a year ago. Due to the rental nature of Pason's business, inventory is treated as a capital asset, and as a result, does not affect the Company's working capital.

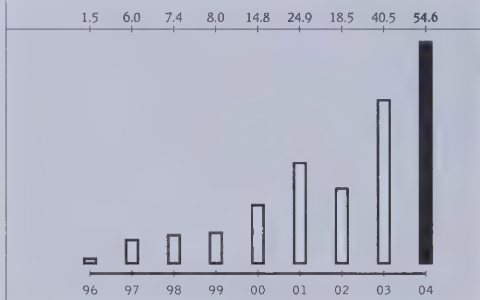
Proceeds from the exercise of Company stock options totaled $4.0 million compared to $3.6 million in 2003, resulting in the issuance of 436,224 common shares versus 542,825 common shares the prior year. The average exercise price increased 39% to $9.15 per share from $6.60 per share in 2003.

During 2004, cash flow funded the Company's $41.6 million capital expenditures program, representing a 22% increase over the prior year's total expenditures amount of $34.0 million. Funds were used to acquire and build $41.4 million of new capital assets and product enhancements with a further $0.5 million being spent on deferred development costs versus $33.2 million and $0.8 million, respectively, in 2003. Geographically, $24.6 million of the new capital assets were in Canada, $14.8 million in the U.S. and $1.7 million internationally. This compares to $19.4 million, $12.2 million and $1.6 million, respectively, a year ago. Given the strength in commodity prices and the high level of drilling activity experienced during 2003 and 2004, a ramp up in capital expenditures was initiated during the 2003 first quarter, continued into 2004 and will likely carry forward into 2005 when Pason expects to remove several manufacturing constraints.

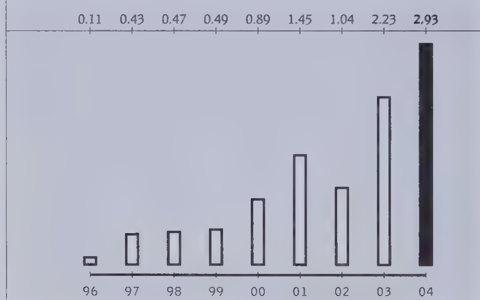
At December 31, 2004, the Company had no capital lease obligations. All leases were fully discharged in 2004.

The Company's maximum operating line of credit is $9.0 million in Canada including US$1.5 million for the United States. At December 31, 2004, $nil and CDN$0.3 million, respectively, were drawn on these facilities compared to $4.2 million and CDN$nil, respectively, in 2003.

Cash Flow[1] \ $ millions



Cash Flow Per Share[1] \ $ basic



(1) For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies. Cash flow from operations including per share amounts are presented to assist readers in assessing non-discretionary cash flows generated and available for capital expenditures.

Disclosure of Outstanding Share Data

As at March 1, 2005, 18,939,753 common shares and 1,514,018 options were issued and outstanding.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE (VESTED)	WEIGHTED AVERAGE EXERCISE PRICE
$	#	YEARS	$	#	$
6.25 – 18.00	668,218	1.94	9.97	489,435	8.60
18.01 – 29.00	439,300	3.77	22.99	124,200	22.95
29.01 – 39.25	406,500	3.83	34.59	–	–
	1,514,018	2.98	20.36	613,635	11.50

Contractual Obligations

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
	$	$	$	$	$
Non-revolving term facility	583,333	583,333	–	–	–
Operating leases	4,014,499	1,624,119	2,362,343	28,037	–
Office leases	9,407,802	829,274	1,825,872	1,809,840	4,942,816

New Products

Through its rental products, Pason continues to add value to the data acquired at the wellsite. Pason's DataHub provides internally developed management tools with broad market appeal plus facilities to download data into more narrowly focused third party specialty applications. For competitive and disclosure accuracy reasons, it is the Company's policy not to disclose details of a new product until it is in an advanced prototype stage since its commercial viability is often not determined until that time.

ELECTRONIC SERVICE RECORDERS

After a year of field prototyping, during the second quarter of 2005 Pason will be rolling out a commercial line of electronic service recorders (ESR) for well service rigs. The ESR provides operational monitoring and administrative benefits similar to the EDR on drilling rigs but is a substantially different product. The typical service rig operation presents new sensoring challenges, more rig control points and an operating environment that is harsher than that of drilling rigs. At this early stage, this product appears to have the potential to be installed on several hundred service rigs throughout North America, however results from the next six months should provide more clarity on this market. Although there are more service rigs than drilling rigs in operation in both Canada and the United States, we expect revenue per service rig site to be approximately 25% to that of the drilling rig site.

New Markets

Pason has developed an international business model for renting its equipment in countries where drilling rig instrumentation has typically been purchased. The Company successfully implemented this model in May 2001 in Mexico.

Pason rents its equipment package that primarily includes an EDR, PVT and TGAS for each rig, and then partners with a local service provider who has been trained in Pason's service culture to supply the necessary local service and support. As a result, Pason retains ownership of its equipment while protecting itself from overhead and unexpected costs associated with local service companies.

Over the past four years in Mexico, increased activity levels and strong customer satisfaction have led to increased opportunities for Pason. The Company currently provides instrumentation packages for 28 rigs in Mexico compared to 23 at year-end 2003.

Through the success of this business model, Pason expanded its operations into the Argentine market during 2003. Originally, acceptance of the Company's EDRs was encouraging, which was largely due to the excellent work of Pason's local partner, however more recently the Company's auto driller has also been gaining attention. Pason still has work to do to further outfit each site with more products in order to generate more revenue per site and thereby record material results in this market going forward. Currently, Pason EDRs are installed on 38 rigs versus 15 at the end of 2003 with auto drillers installed on 13 rigs.

During 2004, operations from the international market, Mexico and Argentina, contributed $3.3 million to the Company's total rentals revenue, an increase of 42% over the $2.3 million contributed in 2003.

Accounting Changes

In 2004, the Company adopted the amended standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Long-lived assets are to be tested for impairment at least annually. A two-step process determines impairment of long-lived assets held for use, with the first step determining when impairment is recognized and the second measuring the amount of impairment. An impairment loss is recognized when the carrying amount of the long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value. Based on this test, there were no indications, events or changes in circumstances that would indicate that the carrying amounts may not be recoverable.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

DEPRECIATION AND AMORTIZATION

The accounting estimates that have the greatest impact on the Company's financial statements are depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives and salvage or residual value. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

CARRYING VALUE OF CAPITAL ASSETS

Long-lived assets are to be tested for impairment at least annually. An impairment loss is required to be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Management reviewed the current year and forecast 2005 earnings before interest, taxes, depreciation and amortization for the various assets and determined there were no indications, events or changes in circumstances that would indicate that the carrying amounts may not be recoverable.

Risks and Uncertainties

The major area of uncertainty for Pason is that the demand for its services is directly related to the strength of its customers' capital expenditures programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of Pason and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices. The large capital-intensive oil sands projects and expanding international activities by many energy companies influence the level of capital expenditures in Canada, in particular.

Weakness in commodity prices can also impact the ability of the Company's customers to pay for the services provided. However, as Pason has a very broad customer base and its services are a minor component when looking at the overall cost of drilling a well, the risk is minimal.

In late 2002, the Government of Canada ratified the Kyoto Protocol. Details of its implementation and associated costs are to be determined in the very near future, and as a result, the effect on customers' cash flow and capital expenditures programs may become easier to ascertain.

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for the Company's services, as customers tend to focus on reorganization activities prior to committing funds to major drilling programs.

In addition to the cyclical nature of its business, Pason is also subject to risks and uncertainties associated with weather and seasonality. Pason continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and international where these factors are less likely to influence activity.

Pason faces the challenge of attracting and retaining employees to meet its various specialized needs. The Company attempts to overcome this by offering an attractive compensation package and training as required to enhance skills.

The Company does not employ hazardous materials, so the possibility of environmental liabilities is limited.

Pason carries adequate levels of insurance to protect the Company. Due to the wide geographical distribution of equipment, the possibility of a loss to a significant portion of its asset base is extremely unlikely. As the Company's equipment is largely unmanned, the customer assumes responsibility for its operations.

The Company has defended its position in a United States patent infringement lawsuit and, following a hearing in July 2004, the court refused to grant the requested injunction to prevent Pason from renting its auto driller in the United States, stating that the other party was not likely to succeed in proving infringement at trial. At this time, management's assessment of the outcome continues to be that the claim of infringement is not valid, and as a result, it is not expected to have a significant adverse impact on the Company's financial statements or operations.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

Outlook

Pason continues to be well positioned to profit from the high levels of oilfield activity. Given the high commodity prices posted throughout 2004, Canadian drilling activity for the year reached over 22,700 wells with approximately 132,400 drilling days compared to over 20,000 wells and 126,500 drilling days in 2003. If current pricing levels are maintained, 2005 is forecast to be better than 2004 both in terms of wells drilled, at 24,000 wells, and the number of drilling days at 140,000. The Company expects to spend in excess of $66 million during 2005 to add new products, new units of existing products

and enhancements in Canada, and to a greater extent in the United States and internationally where significant room for additional market share exists. The Company will continue to pursue new international opportunities that fall within its service model parameters.

Pason's strengths in hardware design, software development, data communications, storage infrastructure and service support allow it to continue to outperform the general industry, and as a result, continue to offer superior shareholder value.

Operational Information

	INDUSTRY DRILLING DAYS	PASON RENTALS REVENUE	REVENUE PER INDUSTRY DRILLING DAY
(UNAUDITED)	#	CDN$	CDN$
Canada*			
1996	97,400	4,497,000	46
1997	128,000	12,400,000	97
1998	89,400	14,800,000	166
1999	81,800	15,000,000	183
2000	117,400	29,000,000	247
2001	120,400	35,900,000	298
2002	92,000	32,088,000	349
2003	126,500	56,393,000	446
2004	**132,400**	**73,149,000**	**552**
United States			
1998	258,400	3,300,000	13
1999	191,600	4,200,000	22
2000	281,400	7,500,000	27
2001	354,400	17,300,000	49
2002	253,700	16,276,000	64
2003	329,500	26,962,000	82
2004	**390,700**	**39,004,000**	**100**

* Source: Canadian Association of Oilwell Drilling Contractors.

YEARS ENDED DECEMBER 31,	CANADA 2004	CANADA 2003	UNITED STATES 2004	UNITED STATES 2003
(UNAUDITED)				
EDR rental days (#)	**133,171**	122,461	**134,681**	100,592
PVT rental days (#)	**123,905**	111,357	**88,759**	60,532
EDR revenue per rental day ($)	**266**	245	**152**	144
PVT revenue per rental day ($)	**153**	148	**139**	155

Numbers are impacted by the EDR configurations in each country and by the stronger Canadian dollar in 2004 versus 2003.

Summary of Quarterly Results

THREE MONTHS ENDED	MAR.31, 2003	JUN.30, 2003	SEP.30, 2003	DEC.31, 2003	MAR.31, 2004	JUN.30, 2004	SEP.30, 2004	DEC.31, 2004
(000s, EXCEPT PER SHARE DATA)	$	$	$	$	$	$	$	$
Revenue	23,590	15,527	24,912	27,772	**34,645**	**21,232**	**29,724**	**36,611**
Net earnings	6,385	2,199	7,884	8,128	**10,695**	**3,533**	**7,857**	**11,757**
Per share – basic	0.36	0.12	0.43	0.44	**0.58**	**0.19**	**0.42**	**0.62**
Per share – diluted	0.35	0.11	0.42	0.43	**0.56**	**0.18**	**0.40**	**0.61**
Cash flow from operations	10,017	5,261	11,603	13,581	**15,800**	**8,393**	**13,579**	**16,868**
Per share – basic	0.56	0.29	0.64	0.74	**0.85**	**0.45**	**0.73**	**0.90**
Per share – diluted	0.54	0.28	0.62	0.71	**0.82**	**0.43**	**0.70**	**0.86**

For the purposes of cash flow per share calculations, cash flow is defined as "Cash flow from operations" before the change in non-cash working capital. This definition is not a recognized measure under Canadian generally accepted accounting principles and accordingly may not be comparable to measures used by other companies.

2004

- **Q4** \ Fourth quarter revenue improved 32% to $36.6 million, while net earnings rose 45% to $11.8 million and earnings per diluted share increased 42% to $0.61 compared to the same period in 2003.
- **Q3** \ Third quarter revenue improved 19% to $29.7 million, while net earnings remained flat at $7.9 million and earnings per diluted share declined 5% to $0.40 compared to the same period in 2003.
- **Q2** \ Best ever second quarter revenue of $21.2 million, a 37% increase, while net earnings improved 61% to $3.5 million and earnings per diluted share rose 64% to $0.18 over the same period in 2003.
- **Q1** \ Best ever quarterly earnings of $0.56 per diluted share, up 30% from the Company's previous record posted in the fourth quarter of 2003.

2003

- **Q4** \ Best ever fourth quarter revenue of $27.8 million, a 78% increase, while net earnings improved 180% to $8.1 million and earnings per share rose 175% to $0.44 over the same period in 2002.
- **Q3** \ Results for this quarter were the best in Pason's history as revenue rose 82% to $24.9 million, net earnings improved 369% to $7.9 million and earnings per diluted share increased 367% to $0.42 over the same period in 2002.
- **Q2** \ Revenue rose 65% to $15.5 million, net earnings improved 296% to $2.2 million and earnings per diluted share increased 266% to $0.11 over the same period in 2002.
- **Q1** \ Revenue rose 42% to $23.5 million, net earnings improved 43% to $6.4 million and earnings per diluted share increased 40% to $0.35 over the same period in 2002.

SEDAR

Additional information relating to the Company can be accessed on the Company's web-site at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Management's Report

To the Shareholders of Pason Systems Inc.

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring management meets their financial reporting responsibilities.

J D Hill

JIM HILL
President & Chief Executive Officer

J Dickie

JOANNE DICKIE
Chief Financial Officer

Calgary, Alberta
March 1, 2005

Auditors' Report

To the Shareholders of Pason Systems Inc.

We have audited the consolidated balance sheets of Pason Systems Inc. as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
February 18, 2005

Consolidated Balance Sheets

DECEMBER 31,	2004	2003
	$	$
Assets		
Current		
Cash and term deposits	**1,949,960**	1,657,905
Accounts receivable	**36,562,572**	28,945,072
Prepaid expenses	**511,427**	460,935
	39,023,959	31,063,912
Capital assets (NOTE 5)	**97,691,491**	78,026,556
Deferred development costs (NOTE 6)	**2,297,018**	3,198,977
	139,012,468	112,289,445
Liabilities		
Current		
Bank indebtedness (NOTE 7)	**313,836**	4,170,000
Accounts payable and accrued liabilities	**13,378,125**	7,878,001
Income taxes payable	**3,209,027**	7,290,496
Non-revolving term credit facility (NOTE 7)	**583,333**	–
Current portion of obligations under capital leases (NOTE 8)	**–**	2,490,797
	17,484,321	21,829,294
Future income taxes (NOTE 10)	**6,781,471**	6,557,820
	24,265,792	28,387,114
Shareholders' Equity		
Share capital (NOTE 9)	**24,225,666**	20,155,478
Contributed surplus (NOTE 9)	**1,381,913**	169,940
Foreign currency translation adjustment	**(8,892,276)**	(5,304,362)
Retained earnings	**98,031,373**	68,881,275
	114,746,676	83,902,331
	139,012,468	112,289,445

Approved by the Board of Directors

Harold R. Allsopp
Director

James B. Howe
Director

Consolidated Statements of Earnings and Retained Earnings

YEARS ENDED DECEMBER 31,	2004	2003
	$	$
Revenue	**122,212,350**	91,801,215
Expenses		
Rental services	**33,468,053**	23,367,247
Geological services	**4,954,244**	4,283,311
Manufacturing and distribution	**3,579,153**	2,835,251
Research and development	**4,994,962**	3,663,317
Administration	**3,061,376**	2,647,259
Stock-based compensation (NOTE 9)	**1,290,273**	169,940
Interest on long-term lease obligations	**71,531**	444,099
Interest – other	**311,492**	449,860
Depreciation and amortization	**18,992,107**	15,016,512
	70,723,191	52,876,796
Earnings before income taxes	**51,489,159**	38,924,419
Income taxes (NOTE 10)		
Current	**17,131,159**	13,647,852
Future	**516,088**	680,481
	17,647,247	14,328,333
Net earnings	**33,841,912**	24,596,086
Retained earnings, beginning of year	**68,881,275**	47,397,087
Dividends	**(4,691,814)**	(3,111,898)
Retained earnings, end of year	**98,031,373**	68,881,275
Earnings per share (NOTE 12)		
Basic	**1.81**	1.35
Diluted	**1.75**	1.31

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31,	2004	2003
	$	$
Cash flows related to the following activities:		
Operating		
Net earnings	33,841,912	24,596,086
Adjustments for:		
Depreciation and amortization	18,992,107	15,016,512
Stock-based compensation	1,290,273	169,940
Future income taxes	516,088	680,481
Cash flow from operations	54,640,380	40,463,019
Changes in non-cash working capital	(11,151,942)	(2,560,963)
	43,488,438	37,902,056
Financing		
Issue of common shares under the stock option plan	3,991,888	3,580,870
Proceeds from non-revolving term facility	3,500,000	–
Repayment of non-revolving term facility	(2,916,667)	–
Repayment of long-term debt	–	(389,742)
Repayment of capital leases	(2,490,797)	(3,867,937)
Payment of dividends	(4,691,814)	(3,111,898)
	(2,607,390)	(3,788,707)
Investing		
Purchase of capital assets	(41,141,706)	(33,247,269)
Deferred development costs	(513,574)	(793,468)
Proceeds on disposal of capital assets	665,645	335,547
Changes in non-cash working capital	4,256,806	1,397,193
	(36,732,829)	(32,307,997)
Net increase in cash and cash equivalents	4,148,219	1,805,352
Cash and cash equivalents, beginning of year	(2,512,095)	(4,317,447)
Cash and cash equivalents, end of year	1,636,124	(2,512,095)
Represented by:		
Cash and term deposits	1,949,960	1,657,905
Bank indebtedness	(313,836)	(4,170,000)
	1,636,124	(2,512,095)

Supplemental cash flow information (NOTE 14)

Notes to Consolidated Financial Statements

Years Ended December 31, 2004 and 2003

1. DESCRIPTION OF BUSINESS

Pason Systems Inc. (the "Company") designs and manufactures for rent, specialized proprietary instrumentation for use on land-based drilling rigs.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries, Pason Systems Corp., Pason US Holdings Corp., Pason de Mexico S.A. de C.V. and Pason Systems USA Corp., a wholly-owned subsidiary of Pason US Holdings Corp.

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. CHANGES IN ACCOUNTING POLICIES

Effective December 31, 2004 the Company adopted the new standard for impairment of long-lived assets recommended by the CICA. This standard requires the Company to determine whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows when indicators of impairment exist. Factors which could indicate an impairment exists include significant underperformance relative to historical or projected future operating results, significant changes in the manner or use of the assets, the strategy for the Company's overall business and significant negative industry or economic trends.

The Company's business, the market and business environment are continually monitored and judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital assets. If the total of the undiscounted future cash flows, excluding finance charges, is less than the carrying amount of the capital assets, asset impairment must be recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is estimated by calculating the present value of expected future cash flows related to the asset.

4. SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

Capital assets include parts and raw materials awaiting assembly into capital assets. No depreciation is recorded for parts and raw materials awaiting assembly.

The electronic drilling recorders and auto drillers are recorded at cost and are depreciated using a unit-of-use method based on 1,350 rental days with a 10% salvage or residual value. Pit volume totalizers and electronic drilling choke controls are recorded at cost and are depreciated using a unit-of-use method based on 1,800 rental days with a 10% salvage or residual value. Total gas systems are recorded at cost and are depreciated using a unit-of-use method based on 1,125 rental days with a 10% salvage or residual value.

Geological services equipment is recorded at cost and is depreciated on a straight-line basis over 60 months. Satellite (low bandwidth) telephones are recorded at cost and are depreciated on a straight-line basis over 30 months. Satellite systems (high bandwidth) are recorded at cost and depreciated on a straight-line basis over 36 months. Electronic cables are recorded at cost and are being depreciated on a straight-line basis over 36 months.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, which range from two to ten years.

All remaining capital assets are recorded at cost and are depreciated using the declining-balance method at the following annual rates:

Trucks and truck boxes	30%
Other	20%

Goodwill

Goodwill, included in capital assets, is recorded at cost. Effective January 1, 2002, goodwill is not being amortized, rather the recorded amount of goodwill is subject to periodic impairment review. This review is to take place on at least an annual basis to ensure that the fair value remains greater than, or equal to, book value, or at earlier periods if circumstances indicate a possible impairment. Any excess of book value over fair value is charged to income in the period in which the impairment is determined to have occurred.

Research and Development

The Company expenses all research expenditures as incurred, net of related investment tax credits received. Development costs, net of related investment tax credits, are expensed as incurred unless they meet the criteria for deferral and amortization under Canadian generally accepted accounting principles.

Development costs incurred on new product development projects, which in management's view, have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and amortized over three years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed.

Foreign Currency Translation

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at average semi-monthly exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a foreign currency translation adjustment account in shareholders' equity.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period that the change is substantively enacted, based on the rates in effect when the temporary differences are expected to reverse. Investment tax credits are recorded when received.

Revenue Recognition

Revenue is recognized based upon completion of each rental day for rental products and geological services during the reporting period, provided collectiblity is reasonably assured.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation Plans

The Company has a stock option plan. Prior to December 31, 2003, the Company accounted for its stock options based on intrinsic values whereby no compensation cost was recognized in the consolidated financial statements for stock options granted to employees and directors. Any consideration received on the exercise of stock options was credited to share capital.

During the fourth quarter of 2003, the Company early adopted the new accounting recommendation for stock compensation expense on a prospective basis, whereby the stock options are being accounted for using the fair value method estimated on the date of grant using the Black-Scholes option-pricing model and results in recording stock-based compensation costs.

Consideration received on the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus, for these same options, is recorded as an increase in share capital.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the amortization period for capital assets, the assessment of the viability of new product development projects and the provision for doubtful accounts receivable. Actual results could differ from these estimates.

5. CAPITAL ASSETS

2004	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET BOOK VALUE
	$	$	$
Parts and raw materials	10,670,357	–	10,670,357
Electronic drilling recorders	65,159,348	18,494,971	46,664,377
Satellite (low bandwidth) telephones	4,994,945	4,303,799	691,146
Satellite systems (high bandwidth)	7,859,634	1,606,000	6,253,634
Pit volume totalizers	15,985,565	4,328,701	11,656,864
Total gas systems	5,106,313	537,717	4,568,596
Auto driller	4,055,493	79,034	3,976,459
Electronic cables	7,616,470	2,239,876	5,376,594
Geological services equipment	3,559,219	3,310,994	248,225
Electronic drilling choke controls	2,290,642	635,214	1,655,428
Trucks and truck boxes	2,814,757	1,117,211	1,697,546
Leasehold improvements	4,120,254	1,725,655	2,394,599
Computer equipment	3,763,255	3,292,655	470,600
Other	3,521,602	2,154,536	1,367,066
	141,517,854	43,826,363	97,691,491

5. CAPITAL ASSETS (continued)

2003	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET BOOK VALUE
	$	$	$
Parts and raw materials	6,173,639	–	6,173,639
Electronic drilling recorders	46,577,042	10,532,995	36,044,047
Electronic drilling recorders under capital lease	8,172,440	1,560,193	6,612,247
Satellite (low bandwidth) telephones	4,976,348	2,993,780	1,982,568
Satellite systems (high bandwidth)	2,232,607	411,782	1,820,825
Pit volume totalizers	11,449,887	2,880,185	8,569,702
Pit volume totalizers under capital lease	1,835,159	697,547	1,137,612
Total gas systems	4,255,870	238,823	4,017,047
Electronic cables	4,161,162	547,063	3,614,099
Geological services equipment	3,801,088	3,092,023	709,065
Electronic drilling choke controls	2,042,766	469,184	1,573,582
Trucks and truck boxes	1,543,687	835,306	708,381
Trucks under capital lease	336,843	242,594	94,249
Leasehold improvements	4,309,837	1,705,536	2,604,301
Computer equipment	3,407,345	2,609,264	798,081
Other	3,487,747	1,920,636	1,567,111
	108,763,467	30,736,911	78,026,556

Depreciation and amortization expense recorded with respect to capital assets in 2004 was $17,630,215 (2003 – $14,111,864). Included in depreciation and amortization expense are losses on the disposal of assets in the amount of $270,304 (2003 – $212,349). Included in other capital assets is the amortized book value as at December 31, 2001 of goodwill recorded by Pason Systems USA Corp in the amount of $380,446 (2003 – $408,515). No impairment of capital assets or goodwill has been recorded for 2004 or 2003.

6. DEFERRED DEVELOPMENT COSTS

	2004	2003
	$	$
Accumulated costs, beginning of year	**6,139,484**	5,346,016
Additional costs deferred during the year	**969,916**	793,468
Investment tax credits received	**(456,342)**	–
Non commercial project costs expensed during the year	**(137,482)**	–
	6,515,576	6,139,484
Accumulated amortization	**(4,218,558)**	(2,940,507)
Net deferred development costs, end of year	**2,297,018**	3,198,977

The amortization recorded in 2004 was $1,361,892 (2003 – $904,648).

7. CREDIT FACILITIES

The Company's subsidiary, Pason Systems Corp., has a $9,000,000 demand credit facility, which bears interest at the Canadian bank prime rate plus 0.5%. At December 31, 2004, an amount of $313,836 had been drawn on this credit facility (2003 – $4,170,000). The credit facility is used by the Company for temporary cash shortfalls; accordingly, amounts drawn down are recorded as bank indebtedness and included with cash and cash equivalents in the consolidated statements of cash flows.

In 2003, the Company put in place a $3,500,000 non-revolving term facility, which bears interest at the Canadian bank prime rate plus 0.50% per annum. Borrowings under this facility are repayable by consecutive monthly principal payments that commenced March 29, 2004 and the balance is to be repaid in full by February 27, 2005. At December 31, 2004 an amount of $583,333 was outstanding on this facility (2003 – $nil). This facility, together with the demand credit facility, are secured by a general security agreement from Pason Systems Corp. and Pason Systems USA Corp.

8. OBLIGATIONS UNDER CAPITAL LEASES

Future payments under capital leases, which includes the buyouts at the end of the leases, where applicable, as at December 31, 2004 and 2003 are as follows:

	2004	2003
	$	$
2004	–	2,578,332
	–	2,578,332
Imputed interest on leases at 7% to 9%	–	87,535
	–	2,490,797
Less current portion	–	2,490,797
	–	–

9. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	SHARES	AMOUNT
	#	$
Balance, December 31, 2002	17,903,271	**16,574,608**
Exercise of stock options	542,825	**3,580,870**
Balance, December 31, 2003	18,446,096	**20,155,478**
Exercise of stock options	436,224	**3,991,888**
Adjustment on exercise of stock options	–	**78,300**
Balance, December 31, 2004	18,882,320	**24,225,666**

9. SHARE CAPITAL (continued)

At December 31, 2004, 1,475,151 stock options, which vest over the following three years from the date of issue, were outstanding for common shares at exercise prices ranging from $6.25 to $39.25 per share, expiring between March 13, 2005 and December 30, 2009 as follows:

	2004		2003	
	SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	#	$	#	$
Outstanding, beginning of year	**1,652,275**	**13.24**	1,639,400	8.04
Granted	**411,000**	**32.10**	695,000	19.72
Exercised	**(436,224)**	**9.15**	(542,825)	6.60
Cancelled	**(151,900)**	**21.43**	(139,300)	10.24
Outstanding, end of year	**1,475,151**	**18.85**	1,652,275	13.24
Exercisable, end of year	**643,168**		591,092	
Available for grant, end of year	**413,081**		192,335	

2004	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE (VESTED)	WEIGHTED AVERAGE EXERCISE PRICE
$	#	YEARS	$	#	$
6.25 – 18.00	**707,101**	**2.10**	**9.95**	**510,418**	**8.58**
18.01 – 29.00	**461,050**	**3.93**	**22.98**	**132,750**	**22.62**
29.01 – 39.25	**307,000**	**4.27**	**33.15**	**–**	**–**
	1,475,151	**3.13**	**18.85**	**643,168**	**11.47**

The Company is authorized to issue a maximum of 7,500,000 shares under their stock option plan of which 5,261,150 had been issued to December 31, 2004 and 1,475,151 were outstanding at December 31, 2004. The total number of options outstanding must not exceed 10% of the total common shares outstanding.

Prior to 2003, the Company accounted for its stock option plan using the intrinsic value of options issued, whereby no compensation costs were recognized in the consolidated financial statements for stock options granted to employees and directors. If the fair value method had been used, the Company's net earnings and net earnings per share for 2004 and 2003 would have approximated the following pro-forma amounts:

9. SHARE CAPITAL (continued)

YEARS ENDED DECEMBER 31,	2004	2003
	$	$
Additional compensation costs	**342,610**	384,860
Net earnings		
As reported	**33,841,912**	24,596,086
Pro-forma	**33,499,302**	24,211,226
Net earnings per common share		
Basic		
As reported	**1.81**	1.35
Pro-forma	**1.79**	1.33
Diluted		
As reported	**1.75**	1.31
Pro-forma	**1.73**	1.29

The fair value of each option granted during the year ended December 31, 2002 has been estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions as follows:

YEAR ENDED DECEMBER 31,	2002
Risk free interest rate (%)	4.29
Expected option life (YEARS)	3.16
Expected volatility (%)	40.00
Annual dividends per share (%)	0.00
Fair value of stock options granted ($)	4.00

Stock options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method and recorded as stock-based compensation expense of $1,290,275 in the consolidated statement of earnings, using the following weighted average assumptions:

YEARS ENDED DECEMBER 31,	2004	2003
Risk free interest rate (%)	**3.70**	3.76
Expected option life (YEARS)	**3.12**	3.13
Expected volatility (%)	**31.70**	35.00
Annual dividends per share (%)	**1.00**	–
Fair value of stock options granted ($)	**7.88**	5.28

Amounts recorded to contributed surplus of $1,290,273 (2003-$169,940) relating to the fair value of stock options expensed and reduced subsequently by options exercised are as follows:

	AMOUNT
	$
Contributed Surplus	
Balance, December 31, 2003	**169,940**
Stock-based compensation expense for the year	**1,290,273**
Stock options exercised	**(78,300)**
Balance, December 31, 2004	**1,381,913**

10. PROVISION FOR INCOME TAXES

The provision for income taxes reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 34.12% for 2004 and 37.5% for 2003. In addition, Pason Systems USA Corp. is subject to federal and state statutory tax rates of 40% for 2004 and 2003. The main differences are as follows:

	2004	2003
	$	$
Earnings before income taxes	**51,489,159**	38,924,419
Expected income taxes	**17,739,229**	14,278,860
Increase (decrease) resulting from:		
Amounts not deductible for tax	**281,356**	259,086
Non-taxable dividends	**(185,563)**	(675,000)
Additional permanent differences and other	**(187,775)**	465,387
Provision for income tax expense	**17,647,247**	14,328,333

The Company has future income tax liabilities related to temporary differences between the actual book value and the tax value of capital assets in the amount of $11,244,100 (2003 – $9,287,000). The Company also has available U.S. net operating losses of $11,156,500 (2003 – $6,822,000), of which a benefit of $4,462,600 (2003 – $2,728,800) has been recognized in the consolidated financial statements. These losses expire at various times up to 2024.

11. FINANCIAL INSTRUMENTS AND RISKS

The carrying values of financial instruments, which include accounts receivable, bank indebtedness, accounts payable and accrued liabilities, obligations under capital lease, income tax receivable and payable and the non-revolving term credit facility, approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties.

The Company is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. However, the Company has a large number of customers, which minimizes concentration of credit risk.

A significant portion of the Company's operations relates to subsidiaries located in the United States and Mexico that are considered self-sustaining. As a result of fluctuations to foreign exchange rates, the Company is exposed to varying foreign exchange risks.

The Company is exposed to interest rate risk on its floating rate credit facilities.

12. PER SHARE AMOUNTS

Basic earnings per share figures have been calculated using 18,664,407 (2003 – 18,175,043) weighted average number of common shares outstanding during the year. Diluted amounts per share have been calculated based on the treasury method using the weighted average number of common shares and dilutive equity instruments representing 19,356,310 shares (2003 – 18,820,653).

13. SEGMENTED INFORMATION

The Company operates in three geographic segments within one industry segment. Rental services are provided in Canada, the United States and on an International basis (Mexico and Argentina). The amounts related to each segment are as follows:

	CANADA	UNITED STATES	INTERNATIONAL	TOTAL
	$	$	$	$
2004				
Revenue from external customers	**72,495,088**	**46,410,842**	**3,306,420**	**122,212,350**
Depreciation and amortization	**12,661,876**	**6,002,822**	**327,409**	**18,992,107**
Operating costs	**25,993,242**	**23,304,513**	**398,502**	**49,696,257**
Segment operating profit	**33,839,970**	**17,103,507**	**2,580,509**	**53,523,986**
Interest on long-term lease obligations				**71,531**
Interest – other				**311,492**
Corporate expenses				**361,531**
Stock-based compensation				**1,290,273**
Income tax expense				**17,647,247**
Net earnings				**33,841,912**
Identifiable assets	**92,548,240**	**42,248,380**	**4,215,848**	**139,012,468**
Capital expenditures	**24,612,980**	**14,812,533**	**1,716,193**	**41,141,706**
2003				
Revenue from external customers	56,502,822	32,964,731	2,333,662	91,801,215
Depreciation and amortization	10,206,371	4,546,657	263,484	15,016,512
Operating costs	19,789,223	16,307,526	368,791	36,465,540
Segment operating profit	26,507,228	12,110,548	1,701,387	40,319,163
Interest on long-term lease obligations				444,099
Interest – other				449,860
Corporate expenses				330,845
Stock-based compensation				169,940
Income tax expense				14,328,333
Net earnings				24,596,086
Identifiable assets	76,554,104	32,705,162	3,030,179	112,289,445
Capital expenditures	19,494,086	12,192,561	1,560,622	33,247,269

14. SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid during 2004 was $383,023 (2003 – $893,959). Income tax paid during 2004 was $20,120,370 (2003 – $5,688,797).

15. GUARANTEES

The Company has evaluated guarantees that may be in place in the normal course of business, none of which, as assessed by management, have a material impact on these financial statements.

16. COMMITMENTS AND CONTINGENCIES

The Company has a lease for Calgary office premises expiring March 31, 2015. The minimum annual rental payments in 2005 are $565,514, $659,810 in each of 2006 through 2010 and $775,277 from 2011 – 2015. Minimum annual lease payments starting at $219,142 in year one (1) and increasing at $0.30 per square foot per year to $259,328 in year seven (7) are required under the Company's Denver lease to July 31, 2111. Minimum average annual lease payments of $74,000 to December 31, 2006 are required under the Company's Houston lease.

The Company entered into operating leases for its new vehicles with minimum annual rental payments in 2005 of $1,624,119; 2006 of $1,546,879; and 2007 of $815,464.

The Company has defended its position in a United States patent infringement lawsuit and following a hearing in July 2004, the court refused to grant the requested injunction to prevent Pason from renting its auto driller in the United States, stating that the other party was not likely to succeed in proving infringement at trial. The other party has indicated that it will appeal the ruling, a process that could take two years or more. Pason has asked the United States Patent and Trademark Office to declare two of the claims of the patent to be invalid, and re-examinations are currently pending. At this time, management's assessment of the outcome continues to be that the claim of infringement is not valid, and as a result, it is not expected to have a significant adverse impact on the Company's financial statements or operations. Accordingly, no amount has been accrued for any potential loss under the claim in the consolidated financial statements at December 31, 2004.

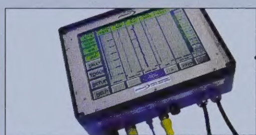
The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

Historical Review

SELECTED FINANCIAL DATA

YEARS ENDED DEC. 31,	2004	2003	2002	2001	2000	1999	1998	1997	1996
(000s, EXCEPT PER SHARE DATA)	$	$	$	$	$	$	$	$	$
Operating Results									
Revenue	**122,212**	91,801	55,311	63,016	42,144	24,668	23,768	14,496	4,497
Expenses									
Rental services	**33,468**	23,367	17,159	13,641	9,290	5,649	4,830	2,348	1,029
Geological services	**4,954**	4,283	4,608	6,262	5,326	3,852	3,568	911	–
Manufacturing & distribution	**3,579**	2,835	2,359	2,551	1,900	1,426	1,125	740	298
Administration	**3,062**	2,647	2,427	2,415	2,826	1,867	1,631	702	441
Research & development	**4,995**	3,663	3,009	2,750	2,006	1,403	967	508	222
Stock-based compensation	**1,290**	170	–	–	–	–	–	–	–
Depreciation & amortization	**18,992**	15,017	8,913	7,341	5,340	2,898	2,584	1,689	580
Net earnings	**33,842**	24,596	9,606	15,437	8,117	4,084	4,900	4,102	909
Per share – basic	**1.81**	1.35	0.54	0.90	0.49	0.25	0.30	0.29	0.07
Cash flow from operations	**54,640**	40,463	18,534	24,941	14,797	7,966	7,417	6,014	1,537
Per share – basic	**2.93**	2.23	1.04	1.45	0.89	0.49	0.47	0.43	0.11
Capital expenditures	**41,655**	34,041	14,069	22,921	23,419	10,851	8,294	7,957	2,438
Financial Position									
Current assets	**39,024**	31,064	22,728	20,276	18,150	11,461	10,470	10,529	3,028
Total assets	**139,012**	112,289	90,191	82,252	64,451	40,193	30,736	25,179	7,346
Working capital	**21,540**	9,235	4,295	5,135	1,416	3,283	5,769	3,824	600
Long-term debt	**–**	–	115	395	635	–	–	233	364
Future income tax	**6,781**	6,558	6,268	6,284	3,800	2,159	1,030	860	81
Shareholders' equity	**114,747**	83,902	65,878	53,941	35,448	26,261	22,639	16,878	3,979
Return on shareholders' equity	**34%**	33%	16%	35%	26%	17%	24%	41%	43%
Common Share Data									
Common shares outstanding (#)									
At December 31	**18,882**	18,446	17,903	17,436	16,789	16,296	16,169	15,900	13,721
Weighted average	**18,664**	18,175	17,748	17,147	16,604	16,257	16,103	14,058	12,412
Share trading									
High ($)	**39.60**	25.50	13.35	10.34	9.75	6.90	8.50	6.50	2.40
Low ($)	**23.01**	11.65	8.65	6.00	5.50	2.25	2.50	6.30	0.70
Close ($)	**37.00**	25.20	11.95	9.10	6.95	6.25	2.90	6.50	2.15
Volume (#)	**9,225**	4,635	5,479	4,423	3,233	3,266	4,987	4,422	n/a

Pason's strategic focus on unique proprietary solutions and providing the industry best in customer care gives it a competitive advantage in meeting the challenges of the drilling site and bridging the physical separation between the remote rig site and the office. Leveraging these services on its dominant Canadian wellsite presence, a solid position in the United States, and growing operations in Mexico and Argentina, has created strong year-over-year revenue gains from each product line.



Electronic Drilling Recorders (EDR)

- **EDR rentals revenue increased 26% to $56.8 million versus $45.1 million in 2003.**

Pit Volume Totalizers (PVT)

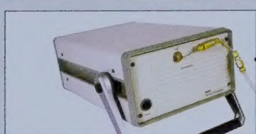
- **Revenue from PVT rentals rose to $31.9 million in 2004 from $26.4 million the prior year, a 21% increase.**

Total Gas Systems (TGAS)

- **TGAS revenue grew 47% to $6.6 million compared to $4.5 million a year ago.**

Communications (VSAT Auto and Manual Aimers and Peloton WellView®)

- **Revenue from the Company's communications products jumped 158% to $8.8 million versus $3.4 million in 2003.**



Geological Services

- **Geological services revenue totaled $7.4 million in 2004, up 27% from $5.8 million recorded a year ago.**

Choke Control Systems

- **Revenue from choke control systems increased 19% to $3.3 million from $2.8 million in 2003.**

Auto Drillers

- **Auto driller revenue rose 1,274% to $3.2 million from $0.2 million recorded a year ago.**

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Corporate Information

DIRECTORS

HAROLD R. ALLSOPP, MBA, CA (1)(2)
President
Habede Holdings Ltd.
Calgary, Alberta

MURRAY L. COBBE, ENG.DIPLOMA (PETROLEUM) (1)(3)
President & Chief Executive Officer
Trican Well Service Ltd.
Calgary, Alberta

JAMES D. HILL, BSC, CA
President & Chief Executive Officer
Pason Systems Inc.
Calgary, Alberta

JAMES B. HOWE, CA (1)(2)
President
Bragg Creek Financial Consultants Ltd.
Calgary, Alberta

CATHERINE HUGHES, BSC (2)(3)
President
Schlumberger Canada Ltd.
Calgary, Alberta

PETER S. MACKECHNIE, CA (3)
Associate Director
Bear Stearns
Vail, Colorado

(1) AUDIT COMMITTEE MEMBER
(2) COMPENSATION COMMITTEE MEMBER
(3) CORPORATE GOVERNANCE COMMITTEE MEMBER

OFFICERS AND KEY PERSONNEL

Pason Systems Inc.

JIM HILL
President & Chief Executive Officer

JOANNE DICKIE
Chief Financial Officer

LUCY TOMIE
Controller

BOB RODDA
Canadian Business Unit Manager

DAVID WHITE
R&D Manager

SUNIL PATEL
Manufacturing Manager

JAMES PARKS
Quality Assurance Manager

Pason Systems USA Corp.

JIM HILL
President

GREG LINDSAY
U.S. Business Unit Manager

BEN THOMAS
Sales Manager

JERRY ABERLE
Chief Financial Officer

JOE WATSON
Geological Services Manager

CORPORATE HEAD OFFICE

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E-Mail: info@pason.com

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BANKER
ROYAL BANK OF CANADA
Calgary, Alberta

LEGAL COUNSEL
GOWLING LAFLEUR HENDERSON LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT
VALIANT TRUST COMPANY
Calgary, Alberta

STOCK TRADING
TORONTO STOCK EXCHANGE
Trading Symbol: PSI

ANNUAL MEETING
The Annual and Special General Meeting of Shareholders of Pason Systems Inc. will be held on Monday, May 16, 2005 at 3:30 p.m. (Calgary time) in the offices of Pason Systems Inc., 6130 Third Street S.E., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Valiant Trust Company at their earliest convenience.